Mayor Anthony A. Williams' Housing Initiative
"Preservation, Rehabilitation and Production"

The District's economy continues to surge and the real estate market establishes record high prices for many of the city's hottest neighborhoods. According to one market analysis, between 1999 and 2000, the price of homes jumped 14.5 percent in the District, and the median housing prices in the region are up 12 percent in just the last year. Recently released property assessment data show strong property values across the city, with dramatic increases in several neighborhoods. For example, in 2002, property assessments rose 46.4% in Cleveland Park and 15.7% in Mount Pleasant.

A quick look at the city's demographics reveals a tremendous need for additional measures to meet the growing demand for housing. Among our poorest citizens, 75% are paying more than 30% of their income on housing, which is more than they should by any objective standard. More than 1,000 of the city's most affordable rental units could lose their rent protections this year, with as many as 10,000 apartments at risk by 2005 because of expiring section-8 contracts. And while the homeownership rate is rising in the District, at 41 percent, it remains much lower than the national average of 67 percent.

Many of our neighborhoods need investment in housing and infrastructure. There are approximately 4,000 abandoned and tax delinquent buildings and lots in the city, creating blight and representing wasted resources for a city expected to grow by 75,000 by 2025. With 44 percent of the housing stock more than 60 years old, many homes, particularly in our historic neighborhoods, require investment for rehabilitation and modernization. And with a growing population and a resurgence of interest in downtown living, the opportunity has arrived to create a vibrant, populous, 24-hour downtown.

Current Affordable Housing Initiatives

Mayor Williams is doing more to help low-income families afford housing than any of the surrounding jurisdictions. The District is home to more than 54 percent of the region's affordable rental units, but only 23 percent of the region's total rental units and only 12 percent of the region's total population. Nonetheless, the Williams Administration is committed to doing more to support our residents. This year, the District's budget includes $30 million to assist first time homebuyers and to produce new housing. An additional $25 million was invested into the Housing Production Trust Fund after the Williams Administration negotiated the sale of the Department of Employment Services building on Pennsylvania Avenue to the Freedom Forum. The funds will provide additional subsidized rental units for families that are living in poor conditions or paying too much rent in their current homes. They will also be used to support homeownership programs to enable hardworking District families to build equity and invest in our city.

The Williams Administration continues to finance affordable housing in the District. The Department of Housing and Community Development and the District of Columbia Housing Finance Agency have helped develop and finance thousands of below-market housing units. In FY 2000 alone, we financed the development, rehabilitation, or conversion to homeownership of 2,532 units serving very-low, low and moderate-income families. Additionally, the District of Columbia Housing Authority provided 25,000 very low-income individuals with public housing, and another 25,000 with privately owned subsidized housing. Through the federal HOPE VI program, the Housing Authority will develop an additional 1,600 units over the next several years.

In addition to assuring an adequate supply of affordable rental housing, the Williams Administration is actively promoting homeownership for our residents. With the federal government's assistance, we are able to provide first-time purchasers of District homes a federal income tax credit equal to $5,000. The Home Purchase Assistance Program provides an average of $18,000 in down payment assistance to approximately 400 low and moderate-income families a year. The Housing Finance Agency provides another 500 families with $25 million in low-interest mortgage loans. The District government augments its purchase assistance programs with the Homestead program. This program enables moderate-income first time homebuyers to purchase vacant, city-owned properties for $250 and helps them to finance the rehabilitation of the properties.

Legislation and Regulatory Initiatives to Strengthen Our Affordable Housing Program

While the William's Administration's current efforts are laudable, they are not enough to meet the demand of a growing and diverse city. Through legislative and executive action, Mayor Williams is expanding the District's efforts to address the affordable housing needs. As part of his Administration's housing initiative, the Mayor transmitted a bill, entitled "The Housing Preservation, Rehabilitation and Production Omnibus Amendment Act of 2001," to the Council for introduction. This Act, and the accompanying regulatory initiatives, expands the city's existing programs that finance the construction and rehabilitation of rental and ownership housing, provide low cost mortgage and home repair loans, and provide support for community development and neighborhood-based initiatives.

The Mayor's housing initiative seeks to meet three objectives:

- **Protect Existing Affordable Housing and Reduce Displacement**
- **Convert Vacant and Dilapidated Buildings into New Housing**
- **Promote New Housing for People of All Incomes**

I. Protect Existing Affordable Housing and Reduce Displacement

In many of the city's historic neighborhoods, a vibrant real estate market means that long-neglected properties are being fixed-up and repositioned for rental or sale to higher income households. Where housing investment in a neighborhood is intense, property values throughout the neighborhood can shoot up dramatically: putting pressure on long-time residents, threatening some of them with displacement and rising costs. The Act addresses the problems facing long-time residents through three measures.

Support Low-Income, Long-Term Homeowners

Provide low-income, long-time homeowners a break on their property taxes. All District homeowners who live in their homes already qualify for a $30,000 homestead deduction to lower their property taxes. Additionally, 26,200 seniors receive the senior citizen tax deduction, which cuts their property taxes in half. We propose giving low-income families who have lived in their homes for at least ten years an additional protection. A family of four earning up to $49,000 per year would qualify for a rebate if their property taxes rise by more than 5% over the previous year’s bill. We expect that families living in the "hottest" real estate markets -- Shaw, Adams Morgan, Logan Circle and others -- will benefit the most from this provision.

Example 1: Support Low-Income, Long-Term Residents

Since the new Metro Station opened in Columbia Heights in the fall of 1999, many homeowners have experienced dramatic increases in their property values and taxes. For example, three years ago a house near the metro was assessed at $83,000, but is now assessed at $137,000. The homeowner’s property taxes increased from $800 to $1,300 – an increase of 65%. We propose that if a family owned and lived in the home for more than 10 years and earned less than $49,000, then it would receive an income tax credit equal to $460, providing a net tax increase of $40, not $500.

Notify the District and Residents of Expiring Use

Many of the most affordable apartment buildings in the city were developed using federal mortgage insurance and Section 8 subsidy contracts. These contracts guarantee that low-income residents pay only 30 percent of their income towards rent, with the federal government making up the difference. Over the next four years, the Section 8 contracts on about 10,000 rental units across the city will expire and the owners will have the opportunity to opt out of the program, ending their obligation to provide housing to new low-income renters.

The city has allocated $1.5 million in the current budget year for technical assistance and predevelopment costs so that tenant associations or tenant-supported purchasers can buy the buildings and preserve their affordability. However, while the funding is necessary and important, for our efforts to be successful, the city needs to know that the owner might opt out of the contract, so we can begin working with the tenants quickly. Thus, we propose requiring owners to notify the city and the tenants of their intent to leave the Section 8 program.

Example 2: Expiring Section-8 Contract

In 1982, an apartment owner received Section 8 project-based assistance in exchange for a commitment to serve low-income residents. In 2002, the owner plans to sell the building to a developer who would convert it into condominiums. Under this policy, the current owner would have to notify the District government and the residents nine months before the proposed sale. The notice period would give the current tenants and the District government an opportunity to examine ways of maintaining the building's affordability.

Provide Targeted Historic Housing Tax Credits

The city's historic districts are full of beautiful, well-constructed, but run-down homes. The poor condition of many of these homes, together with the higher costs associated with historic restoration, has discouraged purchasers from considering these properties and led to disinvestment. Families of modest means have found it particularly difficult to acquire these properties, or if they own such properties, to renovate them.

We propose helping working class residents who wish to upgrade their properties and new purchasers willing to take on the challenge of historic restoration by providing an income tax credit equal to 25 percent of the cost of the renovation. Thus, a $100,000 renovation would cost a homeowner just over $75,000 to complete. Eligible families earn up to 120% of area median income (approximately $98,000 for a family of four). Lower income families that would otherwise be unable to take full advantage of a tax credit may sell the credit.

Homes in historic districts on the eastern side of the city qualify, including LeDroit Park, Mount Vernon Square, Shaw, Anacostia, Greater U Street NW, Greater 14th Street NW, Capitol Hill, and Mount Pleasant.

In order to minimize the fiscal impact on the District's budget, we are proposing a cap on the amount of tax credits that can be awarded. Each year, between 2002 and 2007, the Mayor may pre-approve up to $1.25 million worth of tax credits.

Example 3: Targeted Historic Housing Tax Credit

It is often difficult for a moderate-income homeowner to rehab an historic home. For example, a family that earns $60,000 a year and purchased an historic home 10 years ago might owe $50,000 on the original mortgage. Their house might require $130,000 to restore and modernize it, but the family can only borrow an additional $100,000.

The District will provide an income tax credit equal to 25% of the rehabilitation costs. With the tax credit, the family can borrow $100,000 and receive $30,000 in cash, which is approximately 25% of $130,000 worth of rehabilitation costs. Rather than actually use the tax credit against their income, the family can choose to transfer the credits to the bank, which will sell them to an investor.

II. Convert Vacant and Dilapidated Buildings into New Housing

A drive around Washington, DC's older neighborhoods reveals an abundance of abandoned and dilapidated buildings and vacant lots. Many of the city's older homes, though occupied, are in need of repairs. The city's building code, geared toward new construction standards, discourages home renovations. The city needs better tools to convert vacant properties into housing opportunities.

Although the unclaimed properties are a nuisance today, they can be valuable assets for community development in the future. The city needs better tools to convert these properties into housing opportunities. We need to be able to acquire properties in order to clear up title problems before reselling them for redevelopment. We also need to streamline and update the city's building code and inspection process so that the private sector can get to work to rehabilitate the city's older buildings.

Update the Rehabilitation Building Subcode*

The District's building code governing substantial rehabilitation has not been changed in some 20 years. Many provisions are now out of date, adding to the time and expense of completing a renovation project. Other jurisdictions including New Jersey and Maryland have recently revised their subcodes, providing a model from which to begin. As part of this initiative, the Mayor will establish a committee to redraft the rehabilitation subcode for the District.

Streamline the Demolition Process

Some properties are too dangerous to be rehabilitated, and require demolition before they can be sold for redevelopment. The current process for doing so is too cumbersome. It results in properties sitting abandoned for years, blighting their communities. We propose providing the Department of Consumer and Regulatory Affairs the authority to demolish vacant buildings through a streamlined but fair process. Prior to demolition, the

Historic Preservation Review Board would make a determination that the building is not historically significant, and the Department of Housing and Community Development would establish that it cannot in fact be rehabilitated and would provide notice to the public.

Modify Quick Take Procedures

Title IV of the "Abatement and Condemnation of Nuisance Properties Omnibus Amendment Act of 2000" expanded the District's condemnation authority to include certain abandoned and deteriorated properties. The provisions were based on laws implemented in Baltimore, MD. We propose several modifications so that the law more clearly defines "abandoned" and "deteriorated" properties by referencing objective criteria to ensure its defense in District Court. We propose amending the process so that it references existing statutes and procedures that have been constitutionally tested, rather than creating a new process. Rather than requiring a plan for the disposition of the properties, we propose giving the District more flexibility to dispose of the property through the Homestead Program or selling the property to a neighbor who will convert it into a side lot. We also propose eliminating the whole block remedy because, unlike Philadelphia and Baltimore, it is unnecessary in the District of Columbia.

Modify the Homestead Program

To speed up neighborhood revitalization, we propose strengthening the Homestead Housing Preservation Program by allowing properties to be developed as rental housing as well as for homeownership and by permitting developers to submit unsolicited proposals. These modifications will enable certain buildings to be brought back into productive use that otherwise would go unused because they are not be feasible for redevelopment as owner-occupied housing.

III. Promote New Housing for People of All Incomes

The District government administers several programs that assist working families to purchase first homes, including the Home Purchase Assistance Program and low-interest mortgage assistance. These programs are helping, and we are seeing a rise in the city's homeownership rate. However, our 41% homeownership rate is low compared to the national average of 67%.

The District's fiscal stability depends on a strong economic base, which means attracting new taxpayers back into the District. Unlike most cities that rely on new corporations to generate tax revenues, the main economic driver in the District is residential development and the taxpayers that it brings. Demographers have projected the District's population to grow by 75,000 by 2025, greatly increasing demand for housing and for city services. To build our tax base, and support the strong local and regional employment sectors, the city needs to encourage additional housing development across the income spectrum.

Expand the Housing Production Trust Fund

The Housing Production Trust Fund is a local tool that can be used to vastly expand the city's housing production efforts. Unfortunately, the Fund has been woefully underutilized: since 1989, only four loans have been disbursed. But, in the fall of 2000, the William's Administration negotiated the sale of the Department of Employment Services building to the Freedom Forum, which resulted in an unprecedented $25 million contribution to the Trust Fund.

With an infusion of capital and a relaxation of some of the regulatory hurdles contained in the original legislation, the Williams Administration envisions a reinvigorated Housing Production Trust Fund serving as an engine for housing development in the years to come. For this reason, we propose creating a dedicated source of funding to ensure a steady stream of revenue, in addition to the less predictable contributions resulting from the linkage program. Our proposal includes dedicating 15 percent of the real estate transfer tax and deed recordation tax to the Trust Fund. It is estimated that this will provide between $10 and 12 million a year in local tax revenues to affordable housing.

The Williams Administration anticipates devoting one-third of the Fund to preserve and rehabilitate rental housing, such as those buildings with expiring section-8 funding. Another third of the Fund will be used for homeownership programs, such as providing downpayment assistance and writing down interest rates on mortgages for low income first time home purchasers to as low as 3.75 percent. The remaining third of funds will be used for housing production. At an average investment of $15,000 per unit, this would provide another 550 affordable homes during the next two years. .

Example 4: Housing Production Trust Fund

A housing developer seeks funds to create housing targeted toward very-low income renters. Another developer wants to build a mixed-income housing development that will include units for low- and moderate-income families. Both developers can apply to the Housing Production Trust Fund for project assistance toward the affordable units in their developments. Because of the program's streamlined rules, they can obtain low-cost funding to acquire land and develop housing faster than they could if they sought federal funds.

Modify the Commercial/Housing Linkage Formulas*

The city is seeing a resurgence in commercial development that matches any period in its recent history. For many years, the District has had a linkage policy in place that requires commercial developers, in exchange for zoning variances, to either build affordable housing or contribute to the Housing Production Trust Fund. However, loopholes in the policies have allowed commercial developers to make minimal contributions. In the near future, we will propose modifications to the city's Comprehensive Plan that will close these loopholes and require developers to either build the affordable housing or pay $4 per square foot to the Trust Fund.

Example 5: Modified Linkage Policy

The developers of a downtown office were permitted to fulfill their affordable housing obligation through either a contribution to a non-profit housing developer or a payment into the Housing Production Trust Fund. Since the linkage formula requires a $1.3 million contribution to the trust fund, but the developer could negotiate a $280,000 payment to the non-profit, it chose the non-profit option. Under the proposed modified formula, the non-profit option would be eliminated, but the commercial developer would be able to fulfill its affordable housing obligation by paying $720,000 to the Trust Fund.

Establish an Inclusionary Development Policy*

As our neighbors in Montgomery and Fairfax counties know, one of the best ways to assure that the housing needs of low and moderate income residents are met is to require affordable units to be *included* in new market-rate developments. Inclusionary policies promote income integration and improve the social fabric of neighborhoods. They harness market forces to ensure that affordable units are built in desirable locations and in appropriate quantities. They also provide a low cost alternative to public subsidies while attempting to minimize the impact on the development community.

We propose to require most developers of multi-unit housing projects to set-aside at least 10% of the units of the units as affordable housing. At least 50% of the units must be affordable to families earning less than 60 percent of the Area Median Income, or about $49,000 a year for a family of four, and the remaining for families earning less than 80 percent of AMI, or about $66,000 per year for a family of four. In lieu of setting aside these units, developers may build 15% of the units off-site or may contribute the equivalent value to the Housing Production Trust Fund. The inclusionary requirements would apply to all developments that involve a request for zoning relief or a street or alley closing. They would also apply to projects involving public land or subsidy.

Provide Tax Abatement Incentives for New Residential Development Throughout the City and New Homeownership Opportunities in Enterprise Zones

To encourage residential growth in certain neighborhoods, and to promote the development of low income housing by the private sector, we propose four targeted property tax abatements.

- Abate 75 percent of property taxes for 10 years for new multi-unit, mixed-income housing projects throughout the city where low- and moderate-families can afford 10% of the units.
- Abate 100 percent of property taxes for 10 years for new multi-unit, mixed-income housing projects throughout the city where low- and moderate-families can afford 20% of the units.

- Abate 50 percent of property taxes for new homeowners who renovate their homes in Enterprise Zones. The abatement would be phased out gradually between years 5 and 10.
- Abate 50 percent of property taxes for 10 years for new multi-unit housing projects in downtown Housing Priority A, which is between Massachusetts Ave. and L Streets, and 9th and 10th Streets, as well as between Massachusetts and New York Avenues, and Mount Vernon Square and 3rd Street, NW

In order to receive the mixed-income tax abatements, the owner must make at least 50% of the set-aside units affordable to families earning less than 60 percent of the Area Median Income, or about $49,000 a year for a family of four. The remaining set-aside units must be affordable to families earning less than 80 percent of AMI, or about $66,000 per year for a family of four.

In order to minimize the fiscal impact on the District's budget, we are proposing a cap on the amount of tax credits that can be awarded under each tax abatement proposal. Each year, between 2002 and 2004, the Mayor may approve up to $750,000 worth of tax abatements to Housing Priority A, $500,000 worth of tax abatement to each of the mixed-income tax abatements, and $125,000 to new homeowners in Enterprise Zones. If the Mayor does not award the maximum amount of tax abatements during one of the years, he or she can award it over the next five years.

If the Mayor approves the maximum amount of tax abatements each year and property assessments stay relatively stable, then the District will forgo approximately $55.1 million worth of property taxes over the next 12 years. In three years, this tax abatement will help produce 6,500 market rate and affordable housing units.

Property tax abatements are an investment into future tax revenues. The District will quickly be able to make up any foregone property tax revenue from income taxes, sales taxes, and other revenues produced by new residents.

Modify the Combined Lot Program*

The combined lot program permits commercial developers to sell certain zoning rights and restrictions to housing developers. The current combined lot program requires the developer to obtain a Certificate of Occupancy for the housing before starting on the commercial construction. This policy makes it unduly difficult to finance the commercial construction and consequently, both sides of the project suffer. In response, we propose new regulations that will permit the developer to post a bond for the construction of the housing and to escrow funds that can only be accessed when a building permit has been issued for the housing. This will enable the developer to commence the commercial development while still being held to a commitment to develop housing.

Example 6: Inclusionary Zoning and Property Tax Abatement

If a housing developer requests additional density for a 100-unit apartment building in the Navy Yard in Southeast, then the District will require the developer to set aside 10% of the units for low and moderate-income families.

The developer will forgo approximately $96,000 in annual rents because of the requirement to provide affordable housing. The developer will only be able to charge low and moderate-income families about $1,100 a month, which is about $800 a month less than the market rate for two-bedroom apartment.

To help offset the rents for low and moderate-income families and to encourage new development in all of our neighborhoods, the District will abate 75% of the project's property taxes for 10 years. We estimate that the District will forgo approximately $112,500 in property taxes a year, or about $1,12,500 over ten years. However, the city quickly will recoup the tax revenue from income, sales, and other taxes paid by building residents. Even if we assume that only 75% of the occupants are new taxpaying residents, they will bring in $450,000 in taxes a year and the property tax abatement investment will be paid off if three years.

- These proposals will be implemented separately from the Mayor's omnibus housing bill.

(UPDATED: May 22, 2001)